Airo Lam Limited

June 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	13.99	CARE BBB; Stable	Assigned
Long Term / Short Term Bank Facilities	61.75	CARE BBB; Stable / CARE A3+	Assigned
Short Term Bank Facilities	2.00	CARE A3+	Assigned

Details of facilities in Annexure -1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Airo Lam Limited (ALL) derive strength from vast experience of its promoters, its established track record of operations in laminates industry with addition of plywood product line and financial risk profile marked by moderate profitability, comfortable capital structure and moderate debt coverage indicators.
The ratings, however, are constrained by its growing albeit moderate scale of operations, high working capital intensity and susceptibility of profitability to volatility in raw materials prices. The ratings also factor in real estate linked industry and hence, cyclicality affects the business prospects along with foreign exchange fluctuation risk.

Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Volume backed growth in total operating income (TOI) to more than Rs.350 crore while maintaining its profitability
- Managing its working capital efficiently with improvement in the working capital cycle to less than 90 days on a sustained basis
- Improvement in debt protection metrics with total debt / gross cash accruals (TD/GCA) of less than 3x and interest coverage of over 5x on a sustained basis.

Negative Factors

- Increase in overall gearing beyond 1 times
- Decline in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin below 7% on sustained basis
- Elongation of operating cycle to more than 180 days on a sustained basis

Analytical Approach: Standalone

Outlook: Stable

The outlook on the long-term rating of ALL is "Stable" considering the benefits derived from its established brand names as well as its presence in diversified geographical regions that would enable the company to sustain its operational performance over the medium term.

Detailed description of the key rating drivers:

Key Strengths

Established track record of operations in laminate industry with addition of plywood product line in FY21 (FY refers to the period from April 1 to March 31)

ALL has established track record in laminate business for more than one and a half decades and over the years company has developed good relationship with its customers and suppliers and build-up its brand name in the industry. It has installed capacity of 36 lakh sheet per annum of laminates which is moderately utilized around 75%-80% in past. Company has also added product line of plywood in FY21 with installed capacity of 67.20 lakh square meters per annum. Overall laminates continue to the main revenue contributor forming 85%-90% of net sales but plywood is growing at a healthy rate in last 2 years. Going forward, CARE rating expects company to increase its presence in plywood industry thereby diversifying its revenue profile.
The company has wide product offerings and it has established network of more than 12 depots, 100 distributors and more than 5 thousand dealers across the nation as well as presence in more than 16 overseas market such as Saudi Arabia, Kuwait, UAE, Israel, Bangladesh and Australia etc. Export sales remained one third of total sales in last three years ended in FY23 (FY refers to the period from April 01 to March 31). ALL has ISO 9001:2015 and ISO 14001:2015 certification for management

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

system and UL 2818 - 2013 certifications for chemical emissions for building materials, finishes and furnishings standards. The company is also member of India Green Building Council (IGBC) of CII (Confederation of Indian Industry).

Moderate profitability
Operating profitability of the company marked by its PBILDT margin has remained healthy and range bound at 8.50-9.00% in last five years ended in FY23. Subsequently, profit after tax (PAT) margin of the company also remained range bound at 3.75-4.50% in last five years ended in FY23. However, cash profit of the company almost doubled during FY19-FY23 period in tandem with growing scale of operations with stable profitability.

Comfortable capital structure and moderate debt coverage indicators
ALL's overall gearing ratio improved marginally and remained comfortable at 0.66 times as on March 31, 2023 [0.73 times as on March 31, 2022] on account of increase in tangible net worth base (TNW) with accretion of profits into reserves, though TNW of the company continued to remain moderate at Rs.69.39 crore as on March 31, 2023 which also comprised of interest free unsecured loan from promoters to the tune of Rs.5.14 crore as on March 31, 2023 [PY:Rs.5.41 crore] has been treated as quasi equity as per bank sanction letter terms, as it is subordinated to the bank facilities. Going forward with no major capex planned company CARE ratings expects overall gearing to remain below unity.
Debt coverage indicators of ALL have remained moderate as marked by interest coverage ratio of 4.09 times [PY: 4.91 times] and total debt / GCA of Rs.4.03 times [PY: 4.13 times] for the year ended on March 31, 2023.

Experienced promoters
Promoters of the company, Mr. Pravinbhai Patel [looks after overall administration and exports] and Mr. Sureshbhai Patel [looks after domestic sales and distribution] have long experience in the same line of business.

Rating Weaknesses
Growing albeit moderate scale of operations
ALL's scale of operations marked by its TOI grew by compounded annual growth rate (GACR) of ~15% over the last five years period ended in FY23, which further grew by ~18% Y-o-Y during FY23 on account consistent increase in demand from its regular customers (both domestic as well as export) as well as addition of new customers in its client portfolio along with increased sales realization, though it continued to remain moderate at Rs.200.04 crore.

Working capital intensive operations
Laminate business is working capital intensive in nature as it is made of different types of papers, wide variety of colours and chemicals which necessitates significant investment in raw material inventory. Further, majority of the papers are imported which have lead time ranging from 6 months to 8 months from the date of placement of order. Further, to take care of customer's specific requirement in time, company has to keep raw material (mainly papers) readily available at their site which increases raw material inventory. Furthermore, the company has established more than 12 depots at its major recipient markets for quick and direct supply of its material to customers where it is maintaining additional finished goods inventory which led to improvement in collection period, though inventory period continued to remain elongated. Hence, operating cycle of ALL has remained elongated at 135 days during FY23 as compared to 124 days in FY22.

Susceptibility of profit margins to volatility in raw material price
Major raw materials for the company include, design papers, kraft papers, printed papers, melamine and formaldehyde. Price of design papers, kraft papers and printed papers (55-65% by value) are more stable than price of melamine and formaldehyde like petrochemicals related materials, whose prices are linked to crude oil prices. Imports constituted an average 20-40% of its total raw material costs during FY22-FY23.

Real estate linked industry and hence, cyclicality affects the business prospects
The fortunes of the laminates and plywood board industry is linked to the real estate industry which is inherently cyclical in nature. This factor limits the pricing flexibility and bargaining power of ALL and puts pressure on its profitability. However, the company has geographically diversified presence in the export market which helps in maintaining the steady growth in revenue.

Foreign exchange fluctuation risk
ALL's more than one third sales goes to the overseas market and the export revenue was ~31% of gross sales in FY23 (FY22: ~37%). The company also invoices its exports in U.S Dollar, Euro and Pound which increases its exposure to volatility in aforementioned exchange rates as against Indian Rupee. On other hand, import remained ~45-55% of export value, hence, the company is a net exporter. As articulated by the management, ALL hedges ~50% of its export / import related forex exposure

and balance ~50% forex exposure remained open exposing its profitability to adverse movement in forex rate. During FY23, ALL reported net forex loss of Rs.0.38 crore.

Liquidity: Adequate
Liquidity position of ALL remained adequate as marked by moderate liquidity ratio, moderate utilization of working capital limit, and moderate cash accruals as against low scheduled debt repayment obligations.
ALL is expected to generate GCA of Rs.14-20 crore in near term as against gross scheduled debt repayment obligation of ~Rs.3-6 crore. Average working capital limit utilization during last twelve months ended in March, 2023 remained moderate at ~57% p.a. Current ratio of the company remained moderate at 1.57 times as on March 31, 2023. CFO of the company increased from negative Rs.6.85 crore in FY22 to positive Rs.6.44 crore in FY23 with increase in operating profit during FY23 coupled with reduction in receivables as on March 31, 2023. Unencumbered cash and bank balance with the company remained relatively stable at moderate level of Rs.4.74 crore as on March 31, 2023 [Rs.4.55 crore as on March 31, 2022].

Assumptions/Covenants: Not Applicable
Environment, social, and governance (ESG) risks: Not Applicable

Applicable Criteria:

[Policy on default recognition]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Manufacturing Companies]
[Policy on Withdrawal of Ratings]

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Plywood Boards/ Laminates

About the company
Prantij (Gujarat)-based, ALL (CIN: L20211GJ2007PLC052019) was incorporated in October 22, 2007 and is a listed public limited company promoted by Mr. Pravinbhai N. Patel, Mr. Pravinbhai A. Patel and Mr. Sureshbhai H. Patel. ALL is engaged in manufacturing of laminate sheets and plywood boards which are used in furniture & fixtures. The company is selling its laminates under the brand names of 'Airolam', 'Classico', 'Ilam', 'Airolite', 'Ilite' and 'Airodoor' [laminated door] while selling plywood under the brand name of 'Airoply'.

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	FY23 (Pb)
Total operating income	133.88	169.85	200.04
PBILDT	12.34	15.08	17.16
PAT	5.82	6.80	7.40
Overall gearing (times)	0.66	0.73	0.66
Interest coverage (times)	5.28	4.91	4.09

A: Audited; Pb: Abridged published results along with schedules; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31/03/2027	13.99	CARE BBB; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	40.50	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	21.25	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Loan Equivalent Risk	-	-	-	-	2.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	-	-	-	-	-	1)CARE BBB-; Stable / CARE A3 (23-Mar-21) 2)Withdrawn (23-Mar-21)
2	Non-fund-based - ST-ILC/FLC	ST	-	-	-	-	-	1)Withdrawn (23-Mar-21) 2)CARE A3 (23-Mar-21)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)CARE BBB-; Stable (23-Mar-21) 2)Withdrawn (23-Mar-21)
4	Fund-based - LT/ ST-Cash Credit	LT/ST*	40.50	CARE BBB; Stable / CARE A3+				
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	21.25	CARE BBB; Stable / CARE A3+				
6	Fund-based - LT-Term Loan	LT	13.99	CARE BBB; Stable				
7	Non-fund-based - ST-Loan Equivalent Risk	ST	2.00	CARE A3+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Loan Equivalent Risk	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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